

**State of Nevada**  
**Clean Water State Revolving Fund**  
**Statement of Net Assets**  
**As of June 30, 2005**

Assets

Current assets:	
Cash and cash equivalents	68,567,416
Loan interest receivable	2,107,875
Due from EPA	35,565
Investment interest receivable	180,667
Loans receivable-current portion	6,970,289
Total current assets	77,861,811
Loans receivable-long term portion	139,826,493
Unamortized cost of bond issuance	283,622
Total Assets	<u><u>\$217,971,926</u></u>

Liabilities

Current liabilities:	
Due to other funds	42,679
Bond interest payable	2,062,212
Bonds payable-current obligations	3,275,000
Total current liabilities	5,379,891
Long term liabilities:	
Bonds payable	103,880,751
Total Liabilities	<u><u>109,260,642</u></u>

Net Assets

Restricted for revolving loans	108,382,220
Unrestricted	329,064
Total net assets	108,711,284
Total liabilities and net assets	<u><u>\$217,971,926</u></u>

The accompanying notes are an integral part of the financial statements.

**State of Nevada**  
**Clean Water State Revolving Fund**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
**For the year ended June 30, 2005**

**Revenues:**

Loan interest revenue	4,350,795
Investment revenue	1,885,677
Net increase in fair market value of investments	57,979
EPA contributed revenue	291,763
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Total Revenues	6,586,214

**Expenses:**

Bond interest	4,935,652.97
Amortization of bond issuance costs	25,217
<u>Administrative costs:</u>	
Salaries & benefits	216,326
Operating costs	64,210
Indirect costs	69,592
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Total Expenses	5,310,998

<b>Operating Income</b>	1,275,216
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**Non-operating income:**

EPA contributions	3,737,935
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Change in Net Assets	5,013,151
Net assets, beginning of year	103,698,133
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Net assets, end of year	<u><u>\$ 108,711,284</u></u>

The accompanying notes are an integral part of the financial statements.

**State of Nevada**  
**Clean Water State Revolving Fund**  
**Statement of Cash Flows**  
**For the year ended June 30, 2005**

**Cash flows from operating activities:**

Treasurer's interest distribution	1,825,053
Interest received from borrowers	4,182,137
Principal received from borrowers	6,956,845
Transfer for administrative costs	(357,494)
EPA grant for administrative costs	297,900
Loan Disbursements	(32,512,179)
	<u>(19,607,738)</u>

**Cash flows from noncapital financing activities:**

Grants from EPA	3,737,935
Bond principal redemption	(3,215,000)
Bond interest payments	(5,034,259)
Arbitrage expense	(3,300)
Net cash provided by noncapital financing activities:	<u>(4,514,624)</u>

Net increase in cash	(24,122,361)
Cash and cash equivalents July 1, 2004	92,631,798
Cash and cash equivalents June 30, 2005	<u>\$ 68,509,437</u>

**Reconciliation of operating income to net cash provided by operating activities**

Operating Income (loss)	1,275,216
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**Adjustments to reconcile operating income to net cash provided by operating activities:**

Amortization of cost of issuance	25,217
Interest on bonds	4,935,653

**Change in assets and liabilities:**

(Increase) in loan interest receivable	(168,658)
(Increase) in investment interest receivable	(60,624)
(increase) in fair market value of investments	(57,979)
Decrease in federal grant receivable	6,137
(Increase) in loans receivable	(25,555,334)
Increase (decrease) in obligations to other funds	(7,366)
Total adjustments	(20,882,954)

Net cash provided (used) by operating activities	<u>\$ (19,607,738)</u>
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The accompanying notes are an integral part of the financial statements.

**NEVADA STATE DIVISION OF ENVIRONMENTAL PROTECTION**  
**Clean Water State Revolving Fund**  
**Notes to Financial Statements**  
**June 30, 2005**

**1. Organization of the Fund**

The Nevada Water Pollution Control Revolving Fund Program (the Program) was established pursuant to Title VI of the Federal Water Quality Act of 1987, the Clean Water Act (CWA), and the Nevada Revised Statutes 445A.060. The purpose of the State Revolving Fund (SRF) is to provide low interest loans to local governments for constructing wastewater treatment facilities and non-point source projects. The loan repayment period is normally twenty years, and all repayments, including interest and principal, must be credited to the SRF.

The Program was capitalized by a series of grants from the U.S. Environmental Protection Agency (EPA) starting in 1989. The State is required to provide an additional 20 percent of the Federal capitalization grant amount as matching funds in order to receive the grant from EPA. As of June 30, 2005, EPA awarded \$108,729,600 in capitalization grants to the State, and the State is required to provide \$21,745,920 to the Program as its matching share. The state match is provided by state bonds issued on behalf of the Program by the State Treasurer's Office.

The SRF Program is administered by the State of Nevada's Division of Environmental Protection (NDEP) through the Bureau of Water Pollution Control. The Bureau has developed policies and procedures for the loan program to meet the objectives of the State and Federal Acts and to properly manage and coordinate the Program. The Bureau determines the level of funding to be contributed to the loan fund and used for loans. The Bureau's primary responsibilities for the SRF include obtaining capitalization grants from EPA, soliciting potential interested parties for loans, negotiating loan agreements with local communities, reviewing and approving payment requests from loan recipients, monitoring the loan repayments and conducting inspection and engineering reviews to ensure compliance with all applicable laws, regulations, and program requirements.

The Bureau has one full-time employee and numerous part-time staff to work on Program activities. The allocated portion of salaries and benefits of employees for time spent working on Program activities, as well as indirect costs based on payroll costs, are charged to the Program. NDEP staff charge the Program for time spent on SRF activities, and the Program reimburses NDEP for such costs in the following month. The charges include the salaries and benefits of the employees, as well as indirect costs allocated to the Program. Employees charging time to the Program are covered by the benefits available to Nevada State Employees.

The Program financial statements, footnotes, and related schedules are presented for the U.S. Environmental Protection Agency. The Program's account balances and activities are included in Nevada's Comprehensive Annual Financial Report (CAFR) as part of the Water Projects Loan Fund, a major enterprise fund which uses the accrual basis of accounting. Because the Program is blended with other water pollution control programs, its assets, liabilities, equity and activities are not identifiable in Nevada's CAFR. Also, because of the different reporting methods, there may be differences between the amounts reported in these financial statements and Nevada's CAFR.

## **2. Summary of Significant Accounting Policies**

### ***Basis of Accounting***

The program presents its financial statements as an enterprise fund. This method follows the accrual method of accounting, whereby revenues are recorded as earned and expenses are recorded when the liability is incurred. All assets and liabilities associated with the operations of the Program are included in the balance sheet. An enterprise fund is used since the Program's operations are similar to a financing institution where net income and capital maintenance are appropriate determinations of accountability that provide information to the EPA in evaluating whether the Program is operating within the requirements of the Clean Water Act. In preparing the Program's financial statements, Nevada follows the accounting pronouncements of the *Governmental Accounting Standards Board* (GASB), as well as statements issued by the *Financial Accounting Standards Board* (FASB) before November 30, 1989, unless FASB pronouncements conflict with or contradict GASB pronouncements.

### ***Cash and Cash Equivalents***

The Nevada State Treasurer is an elected Constitutional Officer and part of the Executive Branch of the State government. The Treasurer is responsible for the handling of all State cash as a fiscal agent for the owning fund as discussed in Note 3. The Treasurer manages an investment pool where all temporary surplus cash is invested. The investment pool has the same general characteristics as demand deposit accounts. Invested funds are considered to be cash equivalents. Management of the Program does not have control over the investment of excess cash, and the statement of cash flows considers all funds deposited with the Treasurer to be cash and cash equivalents, regardless of actual maturities of the underlying investments. Deposits with the Treasurer are accounted for on the balance sheet as cash and cash equivalents, and are adjusted at year end for any increase or decrease in fair market value. Investment interest earnings on these deposits are received by the Program on a quarterly basis.

### ***Loans Receivable***

Nevada operates the Program as a direct loan program, whereby the loans made to waste water treatment facilities are funded by the Federal capitalization grants, State match bond proceeds, revolving funds that have been repaid to the Program, investment earnings and from leveraged bond proceeds. The Program's loans are evidenced by a formal loan contract between the Division and the borrower. Loan funds are disbursed to borrowers after they incur costs for the purposes of the loan, request reimbursement from the Program, and the Program receives the Federal share from EPA. Interest rates are based on the Bond Buyer Municipal Index, which is published on a weekly basis each Friday, and currently range from 2.76 to 4.0 percent over a term of 20 years. In determining the interest rate that is offered to a loan recipient, the rate of interest as published by the Bond Buyer Municipal Index on the Friday preceding the date of contract is multiplied by a percentage, which is currently 62.5%. Interest is accrued and payable during the construction period. After the final loan disbursement has been made, the loan and agreement amounts are adjusted for the actual amounts disbursed. No provision for doubtful accounts has been made as all loans are current, and management believes that all loans will be repaid according to the loan terms.

## 2. Summary of Significant Accounting Policies (continued)

### ***Bonds Payable***

The State issues water pollution control bonds to meet its state match obligation. The State has also issued leveraged bonds to accelerate financing certain projects beyond amounts made available by the Federal capitalization grants. Bond discounts, premiums and costs of issuing the bonds are amortized over the life of the bonds. All bonds are backed by the full faith and credit of the State of Nevada, for which the Program is primarily responsible for repayment.

### ***Capitalization Grants***

In accordance with GASB 34, funds received from the EPA for the capitalization of the Program are considered a voluntary non-exchange transaction and recognized as non-operating revenues when all grant conditions are met for each draw request.

## 3. Cash and Cash Equivalents

All monies in the Program are deposited with the State Treasurer's Office and are considered to be cash. The Treasurer is responsible for maintaining and investing the pooled cash balances in accordance with Nevada State laws. The Treasurer is required to maintain a mix of investments in order to allow funds to be withdrawn at any time to meet normal operating needs. The Program's share of the investment income is based on the average daily balance for the period and is credited to the Program quarterly. Details of the investments can be obtained from the State Treasurer's Office.

All cash and investments are stated at fair market value, adjusted at year-end. Investments held by the State Treasurer's Office are not categorized because they are not evidenced by securities that exist in physical or book entry form.

	<u>Carrying Amount</u>	<u>Market Value</u>
Not subject to categorization:		
Consolidated Cash Pool	<u>\$ 68,509,437</u>	<u>\$ 68,567,416</u>

## 4. Loans Receivable

The Program makes loans to qualified entities for projects that meet the eligibility requirements of the Clean Water Act. Loans are financed by capitalization grants, state match, interest earnings, revolving funds and leveraged funds. Interest rates on the loans are based on 62.5 percent of the Bond Buyers Index rate and vary between 2.76 and 4.0 percent. Loan maturities are 20 years. Semiannual payments are due on January 1<sup>st</sup> or July 1<sup>st</sup>. Interest during the construction period is calculated from the date funds are advanced until the final loan closing. The loan contract requires the communities to issue local bonds to secure the loan amount which the State has pledged as collateral for bonds payable.

The Program has issued loans for constructing wastewater treatment facilities and for non-point source projects. From inception of the Program, three local agencies have had existing loans with a total of \$14,690,431 refinanced by the Program at lower interest rates and one non-point source loan for approximately \$6 million. There are eight loan contracts that are primarily funded by approximately \$105 million of leveraged funds made available by the Program.

#### 4. Loans Receivable (continued)

##### *Details of loans receivable as of June 30, 2005:*

	Authorized loan amounts	Amount disbursed	Principal paid	Balance
Completed Projects	138,818,897	138,818,897	42,399,213	96,419,684
Projects in progress	99,792,434	50,535,381	158,283	50,377,098
Totals	238,611,331	189,354,278	42,557,496	\$ 146,796,782
Less: Amounts due within one year:				\$ 6,970,289
Non-current loans receivable June 30, 2005:				\$ 139,826,493

Loans mature at various intervals through January 1, 2025. The scheduled principal repayments for completely disbursed loans in subsequent years are as follows:

Year ending June 30:	<u>Amount</u>
2006	\$ 3,261,557
2007	8,954,085
2008	9,498,462
2009	9,836,621
2010	10,186,988
2011-2015	49,020,293
2016-2020	32,574,107
2021-2025	17,556,20
2026-2030	<u>1,599,452</u>
Total	\$146,796,782

##### ***Loans to Major Local Agencies:***

As of June 30, 2005, the Program had made loans to six local agencies with contract amounts in excess of \$5 million, and principal balances in the aggregate that exceed \$120 million. The outstanding principal balances of these loans represent approximately 84 percent of the total loans receivable, as follows:

<u>Borrower</u>	<u>Original Loan Amount</u>	<u>Outstanding Balance</u>
City of Henderson	41,436,491	22,281,556
City of Sparks	37,915,573	29,188,096
Carson City	10,520,000	7,806,940
Washoe County	32,284,137	29,686,916
City of Mesquite	7,880,000	4,685,646
City of Reno	<u>74,824,000</u>	<u>30,307,302</u>
Total loans to major agencies:	204,860,783	123,956,456
Loans to all other agencies	<u>33,750,548</u>	<u>22,840,326</u>
Total loans receivable June 30, 2005	238,611,331	\$146,796,782

## 5. Bonds Payable

### ***Bonds Payable - All Series (State Match, Leveraged and Refunded)***

The State provides the required matching funds through state match bonds. As of June 30, 2005, \$24,530,000 in such bonds had been issued. As of June 30, 2005, \$3,723,204 in state match bond funds were available to match EPA draws. The State also issues leveraged bonds for financing selected projects that exceed the amount of available funding. As of June 30, 2005, \$113,175,000 in leveraged bonds had been issued, of which \$35,607,406 in obligated funds remained to be drawn.

In May 2001, the State defeased \$3,170,000 of older state match bonds and \$8,875,000 of leveraged bonds in an advanced refunding to take advantage of lower interest rates. These bonds were refunded in the 2001A1 series issued for \$28,720,000. Proceeds of the new bond were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Program's financial statements. In accordance with generally accepted accounting principles, the deferred amount of \$409,765 on refunding is reported as a deferred charge and is amortized over the remaining life of the refunded debt. This amount is deducted from the outstanding balance of the 2001A1 bonds for financial statement presentation.

### ***Details of bonds payable as of June 30, 2005 are as follows:***

State Match Bonds:	Balance	Current	Long-term
<b>Series July 1, 1998D</b> , General Obligation Water Pollution Control Revolving Fund Matching Bonds, interest of 4.25% to 4.875% due semiannually, principal due annually to August 1, 2013.	2,110,000	210,000	1,900,000
<b>Series September 1, 1999C</b> , General Obligation Water Pollution Control Revolving Fund Match Bonds, interest of 5.25% to 5.3% due semiannually, principal due annually to August 1, 2012.	920,000	100,000	820,000
<b>Series July 1, 2000C</b> , General Obligation Water Pollution Control Revolving Fund Matching Bonds, interest of 5% to 5.25% due semiannually, principal due annually to August 1, 2011.	995,000	120,000	875,000
<b>Series May 1, 2001 B</b> , General Obligation (Limited Tax) Water Pollution Control Revolving Fund Matching and Refunding Bonds, interest of 4% to 4.7% due semiannually, principal due annually to August, 2013.	3,065,000	765,000	2,300,000
<b>Series November 25, 2003G</b> , General Obligation Water Pollution Control Revolving Fund Match Bonds, interest of 2.00% to 4.00% due semiannually, principal due annually to August 1, 2013.	2,430,000	240,000	2,190,000
Total State match bonds payable:	9,520,000	1,435,000	8,085,000



## 5. Bonds Payable (continued)

	Balance	Current	Long-term
Leveraged Bonds:			
Series May 1, 1996B, General Obligation Water Pollution Control Revolving Fund Leveraged Bonds, interest of 3.75% to 5.15% due semi-annually principal due annually to August 1, 2016.	390,000	190,000	200,000
Series May 1, 2001A-1, General Obligation (Limited Tax) Water Pollution Control Revolving Fund Leveraged and Refunding Bonds, interest of 4% to 5% due semi-annually, principal due annually to August 1, 2019.	26,410,000	1,330,000	25,080,000
Series May 1, 2001A-2, General Obligation (Limited Tax) Water Pollution Control Revolving Fund Leveraged Bonds, interest of 6% to 6.5% due semiannually, principal due annually to August 1, 2017.	6,150,000	320,000	5,830,000
Series November 25, 2003H, General Obligation (Limited Tax) Water Pollution Control Revolving Fund Leveraged Bonds, interest of 3.0% to 5.0% due semiannually, principal due annually to August 1, 2023.	<u>63,500,000</u>	<u>0</u>	<u>63,500,000</u>
Total Leveraged bonds payable	96,450,000	1,840,000	94,610,000
<b>Total State match and leveraged bonds</b>	<b>105,970,000</b>	<b>3,275,000</b>	<b>102,695,000</b>
Bond premiums and discounts	<u>1,595,516</u>		
Total bonds payable	<u>\$107,565,516</u>	<u>\$3,275,000</u>	<u>\$104,290,516</u>

The debt service requirements to maturity, excluding unamortized premium and discounts, are as follows:

	Principal	Interest	Total
2006	3,275,000	4,877,030	8,152,030
2007	5,780,000	4,676,613	10,456,613
2008	5,815,000	4,405,081	10,220,081
2009	5,815,000	4,124,088	9,939,088
2010	5,870,000	3,863,019	9,733,019
2011-2015	31,615,000	15,181,770	46,766,770
2016-2020	28,685,000	7,981,863	36,666,863
2021-2025	<u>19,115,000</u>	<u>1,410,560</u>	<u>20,525,560</u>
Totals	<u>\$105,970,000</u>	<u>\$46,520,024</u>	<u>\$152,460,024</u>

## 7. Interfund transfers

All administrative costs of the Program are initially paid by the Agency's General Fund accounts. EPA grants directly reimburse the General Fund accounts for 83.33% of the costs, and the remaining balance is paid from the SRF fund through quarterly interfund transfers. Amounts due to other funds represent administrative costs incurred by general fund accounts for Program expenditures which are payable at year end.

## 8. Contributed Capital and Fund Balance

The Program is capitalized by EPA grants authorized by the Clean Water Act. All EPA funds drawn for loans are recorded as non-operating revenues from EPA. The State of Nevada is responsible for matching 20 percent of the EPA capitalization grants and this obligation is met by issuing state match bonds, which are repaid from loan interest receipts (discussed under Note 5). As of June 30, 2005, EPA has awarded capitalization grants of \$108,729,600 to the State, of which \$86,705,253 has been drawn for loans and administrative expenses.

The following summarizes the EPA capitalization grants awarded, amounts drawn on each grant as of the balance sheet date, and balances available for future draws:

	Grant Amount	Cumulative Draws as of June 30, 2004	2005 Draws	Cumulative Draws as of June 30, 2005	Grant Funds Available June 30, 2005
1989	4,577,200	4,577,200		4,577,200	0
1990	4,738,000	4,738,000		4,738,000	0
1991	10,074,800	10,074,800		10,074,800	0
1992	9,534,900	9,534,900		9,534,900	0
1993	9,431,000	9,431,000		9,431,000	0
1994	5,813,800	5,813,800		5,813,800	0
1995	6,007,800	6,007,800		6,007,800	0
1996	9,904,700	9,578,466	326,234	9,904,700	0
1997	2,990,500	2,890,817	15,533	2,906,350	84,150
1998	6,577,300	6,539,658	37,642	6,577,300	0
1999	6,577,900	6,577,900		6,577,900	0
2000	6,555,200	5,534,450	1,247	5,535,697	1,019,503
2001	6,496,100	1,376,763	3,413,502	4,790,265	1,705,835
2003	6,510,800	0	235,541	235,541	6,275,259
2004	6,467,800	0	0	0	6,467,800
2005	6,471,800	0	0	0	6,471,800
Totals	\$108,729,600	\$82,675,554	\$4,029,699	86,705,253	\$22,024,347

***Contingencies***

The Program is exposed to various risks of loss related to torts, thefts of assets, errors or omissions, injuries to state employees while performing Program business, or acts of God. The State maintains insurance for all risks of loss that is included in the indirect costs allocated to the Program. There have not been any claims against the Program since its inception in 1989.

***Related Parties***

There are no related party transactions with or related to amounts receivable from management of the Nevada State Division of Environmental Protection Water Pollution Control Revolving Fund Program.